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Unauthorized Charges on Telephone Bills: Why Crammers Win and Consumers Lose

Chairman John D. (Jay) Rockefeller IV

U.S. Senate Committee on Commerce, Science, and Transportation

WASHINGTON, D.C.—Today's hearing is about a scam that has cost telephone customers billions of dollars in unauthorized charges since the 1990s. It's called "cramming." It refers to the mysterious charges that appear on Americans' phone bills for services they do not want or use.

The companies responsible for these cramming charges don't sell legitimate products. Most of them don't seem to sell anything at all. Their sole purpose is to place bogus charges on your telephone bill, and hope that you will pay your bill every month without looking at it too closely.



In the late 1990s, Congress and the media devoted a lot of attention to cramming. Committees held hearings on cramming; anti-cramming bills were introduced in both the House and the Senate. At the time, consumer advocates, federal authorities, and the telecommunications industry all agreed that something needed to be done.

The industry told Congress that they would fix the problem themselves through voluntary guidelines. During hearings, industry officials argued that they needed flexibility to stop the problem and that legislation or regulation would affect their ability to get the job done. They told Congress that quote, "This industry has a powerful self-interest to correct this problem, and we are working overtime to rid the industry of this scourge."

Congress took their word for it. We moved on to other important issues because we believed the cramming problem was being addressed.

But what we now know is that the cramming problem wasn't solved. Far from it. The minute Congress decided to trust that the industry would fix this problem, the crammers moved right back in. And American families and businesses have been paying the price ever since.

After a year-long Commerce Committee investigation, we now have a very good idea of just how high this price has been. Here's what we have learned:

- More than a decade after telephone companies implemented their voluntary guidelines hundreds of cramming companies continue to place tens of millions of bogus charges on families' and businesses' landline telephone bills every year.
- While the individual charges are usually small amounts between \$10 and \$30 dollars, they have added up to billions of dollars in bogus charges for American families and businesses over the past decade.
- There's also a cost of cramming that is harder to put a dollar figure on – the countless frustrating hours that families and businesses spend trying to get these charges taken off their phone bills. We are going to hear more about this from some of our witnesses today.

One of the questions we have asked during this investigation is: what have the telephone companies been doing for the past decade to protect their customers from these abusive practices?

The short answer is: not enough.

While all the telephone companies have anti-cramming policies, they haven't made a serious effort to keep the crammers off their phone bills. Even when the phone companies kick a company off their bills, the crammers just invent a new company name and product and are allowed to put the charges right back on consumers' bills.

One reason the telephone companies don't really crack down on crammers is that they make money from cramming. According to financial information my staff has reviewed, telephone companies earn a dollar or two every time they place a third-party charge on their customers' bills. Do the math. That's well over a billion dollars in profit over the past decade.

My staff released a report detailing how cramming works and how much money it is costing American families and businesses. I ask unanimous consent to enter this report and other related documents into today's hearing record.

Although Congress and the telephone companies haven't been doing enough to protect consumers from cramming, I am glad to say that some state and federal law enforcement agencies have stayed on the job.

We are going to hear from the Attorney General of Illinois, Lisa Madigan, who will tell us how her office has filed more than 30 lawsuits against crammers. And we are going to hear about a law that the State of Vermont recently passed to protect its citizens against cramming.

Many other law enforcement authorities—including the Federal Trade Commission and the Federal Communications Commission—have filed lawsuits and shut down crammers. But as we are going to hear today, when they shut down one crammer, new crammers appear to take its place.

It's pretty obvious at this point, that voluntary guidelines aren't solving this problem. It's also pretty clear that a case-by-case law enforcement approach is not working. There are just too many crammers out there ripping off too many consumers.

It's time for us to take a new look at this problem and find a way to solve it once and for all. We've

let the crammers get away with these abuses for far too long. Especially in these tough economic times, American consumers need to know that we are working to make sure they are only asked to pay for the charges they've authorized. We're going to put a stop to this practice.

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